

Studies in this line of audit research have typically been interested in examining whether external audit fees are influenced by the contribution of IA to the external audit work. Empirical results offered by these studies are mixed. In particular, prior research examining the IA-fees relationship has reported a negative relationship, a positive relationship, and no significant relationship between external audit fees and IA. For example, Felix *et al.* (2001) provide evidence suggesting that audit fees are reduced as a result of IA involvement in external audit. Goodwin-Stewart and Kent (2006), on the other hand, report evidence of a positive relation between external audit fees and internal audit contribution. On the other hand, both Stein *et al.* (1994) and Carey *et al.* (2000) could not find a significant relationship between audit fees and IA.

The current study aims at extending this line of audit research by examining this important yet rarely examined research issue in the context of the Kuwait audit market. Much of the existing empirical evidence about this relationship stem from developed countries' markets, with very limited research examining this issue in the context of less developed countries. Research based on data from these markets may not be applicable to other parts of the world where the market structure, firms' ownership, and the regulatory environment are quite different. The current study aims at filling this gap in the international audit literature by examining the relationship between external audit fees and IA contribution using data from the Kuwaiti audit market. Such examination seems to be warranted as it could help knowing whether empirical findings documented and conclusions drawn from prior developed markets-based studies about the IA-fees relationship prove to be relevant to a developing country's market, like the Kuwaiti market.

While similar in some aspects, the audit market in Kuwait is distinct from audit markets of developed markets in a number of different ways. First, unlike in most developed countries where the degree of regulation and official audit guidance is thorough and well-structured, rules and regulations governing the audit profession in Kuwait are still immature and underprovided. Audit pricing in Kuwait, therefore, is expected to be different from that in other markets as audit fees are expected to be influenced by the market's regulatory settings (Kim *et al.* 2012). Second, unlike in developed countries where prior related studies were conducted, there are no regulations requiring firms to disclose audit fees paid to their external audit firms. This makes the pricing of audit services in the Kuwaiti market less transparent than audit pricing in these markets where audit fees are publically known. Third, unlike in Western and well-developed audit markets, where the business environment is highly litigious, the potential for economic or reputational losses audit firms may incur as a result of audit failures is quite remote in a developing market, like the Kuwaiti market (Habib and Islam, 2007). Finally, unlike in developed markets where audit firms operate in a highly competitive environment, competition is quite insignificant in the Kuwaiti audit market. Prior research (e.g. Boone *et al.* 2012; Francis *et al.* 2013) suggests that external auditors' behavior is influenced by the level of competition in the marketplace. Hence, the reduced level of competition audit firms face in developing markets compared to that in developed markets may result in fewer incentives for audit firms to reduce their audit costs via seeking IA contribution in their external audit work. These differences between the Kuwaiti audit market and other markets where prior related studies were carried out raise the need for further